

issues of notes, not only by the two leading banks, but by private banking and manufacturing companies, and the fall of the notes below par. The attempt to maintain coin redemption was carried out by a process, which is described in detail by Adam Smith,¹ of collecting coin through London agents and sending it down in wagons to Scotland. Bills of exchange were constantly drawn upon London to cover coin obligations and their payment was often provided for only by drawing fresh bills. The fact that the bank paper was below par led to the constant presentation of notes for redemption and justified Smith's declaration that ^{ei} "bringing gold into the country was like pouring water into a sieve, or like the toil of Danaides." The two principal banks soon saw the folly of this method of doing business and agreed to combine their influence to obtain an act of Parliament, which was passed in 1765, prohibiting the issue of notes with the optional clause, making all such notes payable to bearer on demand, and prohibiting notes under twenty shillings (\$5).

The Bank of Scotland and the Royal Bank were the only chartered banks until the incorporation of the British Linen Company at Edinburgh in 1746. This company was organized for the purpose of promoting the linen industry by lending money to the manufacturers and as the Company was thus led into the banking business it soon found it expedient to continue as a banking company only, under the original name.³ The next important institution founded was the Ayr Bank, which distinguished itself by a radical departure from the methods of the older Scotch banks. The wonderful expansion of Scotch agriculture and industry after the failure of the Jacobite rebellion, under the stimulus of conservative free banking and the system of cash credits, was not rapid enough for certain restless spirits who wished to borrow far beyond their capital or credit. The Ayr Bank was formed with the avowed purpose of adopting a more liberal policy, and the course of the older banks in gradually

¹ *Wealth of Nations*, Book II., Ch. ii., i, 302.

² Cunningham, II., 350.